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FM AMCONSUL RIO DE JANEIRO
TO RUEHC/SECSTATE WASHDC PRIORITY 2766
INFO RUEHBR/AMEMBASSY BRASILIA 9196
RUEHRG/AMCONSUL RECIFE 2614
RUEHSO/AMCONSUL SAO PAULO 4232
RUEHSG/AMEMBASSY SANTIAGO 0157
RUEHBU/AMEMBASSY BUENOS AIRES 0475
RUEHAC/AMEMBASSY ASUNCION 0311
RUEHMN/AMEMBASSY MONTEVIDEO 0318
RUEHQT/AMEMBASSY QUITO 0111
RUEHPE/AMEMBASSY LIMA 0111
RUEHLP/AMEMBASSY LA PAZ 0294
RUEHCV/AMEMBASSY CARACAS 0305
RUEHBO/AMEMBASSY BOGOTA 0135
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDO/USDOC WASHDC
RHEHNSC/NSC WASHDC
RHEBAAA/USDOE WASHDC

UNCLAS SECTION 01 OF 02 RIO DE JANEIRO 000446

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STATE PASS USAID FOR LAC
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NSC FOR FEARS
TREASURY FOR OASIA - J.HOEK
STATE PASS TO FED BOARD OF GOVERNORS FOR ROBITAILLE
USDOC FOR 4332/ITA/MAC/WH/OLAC/JANDERSEN/ADRISCOLL/MWAR D
USDOC FOR 3134/ITA/USCS/OIO/WH/RD/SHUPKA
DOE FOR WARD/LADISLAW

E.O. 12958: N/A

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SUBJECT: AMBASSADOR'S BRAZIL-BOLIVIA-VENEZUELA GAS DISCUSSIONS IN RIO

REF: A) Rio de Janeiro 00234 B) La Paz 02216

This cable is sensitive but unclassified, please protect accordingly.

11. (SBU) Summary: Petrobras CEO Sergio Gabrielli and Shell Brazil CEO Vasco Dias told Ambassador Sobel in meetings on August 22 that Brazil's priority in upcoming negotiations over gas supplies from Bolivia was to ensure continuity of supply. Despite its unhelpful role in Bolivia, the CEOs did not see Venezuela's PDVSA as a true threat. While Shell's Dias discounted the commercial viability of Venezuela's proposed South America gas pipeline, Gabrielli, who is appointed by the GoB, stuck to the party line and said the project might be profitable in the longer term. Despite Gabrielli's statement, most experts would question the assertion that Petrobras is really convinced of the project's viability. End Summary.

12. (U) Background: Ambassador Sobel visited Rio de Janeiro August 21-22 and had three separate meetings with energy companies headquartered here. First he met with Shell Brazil CEO Vasco Dias followed by a roundtable on investment issues with U.S. energy companies. Finally, he met with Petrobras CEO Sergio Gabrielli. This cable focuses on these interlocutors' comments on Bolivia and Venezuela gas. Septel addresses bio-fuels, Petrobras and the investment climate in the oil and gas sector.

13. (SBU) Shell Brazil CEO Dias related to the Ambassador in an August 21 meeting that President Lula's Chief of Staff, Dilma Rousseff, has told him the GoB recently sent a message to Bolivia that its nationalization of Petrobras assets and unilateral threats to increase gas prices had gone too far. In reality, Dias continued, despite Venezuela's offer of assistance, Bolivia lacks the technology and know-how to process their gas. Brazil is

concerned, he stated, about a potential gas shortfall in the near future, since bringing additional domestic gas production online will be a lengthy, complex and expensive process. In an August 22 meeting, Petrobras President Gabrielli explained to the Ambassador that there are four different Brazilian/Bolivian teams currently discussing gas prices, production, and operations, and that a new meeting with the Bolivian government is scheduled for September 14. He was somewhat confident that a solution for the gas impasse could be reached by December.

14. (SBU) Gabrielli noted that the GoB is playing an important role in the negotiations by creating an environment for Petrobras to negotiate with Bolivia on technical grounds. He stated that Petrobras is most concerned with maintaining a daily flow of gas of up to 30 million cubic meters. Both sides are negotiating the new price for future volumes for Bolivian gas exports to Brazil. In the meantime, Brazil is moving forward with increased investments in the domestic gas market. Soon there will be an open gas tender to attract FDI to open additional exploration in Brazil. Petrobras also plans to build two liquefied natural gas (LNG) plants in northeastern Brazil using floating storage re-gasification units to guarantee gas in the event its thermal power plants need to dispatch power.

Venezuela's role: Petrobras vs. PDVSA

15. (SBU) During the August 21 roundtable discussion, representatives of several U.S. energy companies noted to the Ambassador that the Venezuelan presence in Bolivia is not considered a threat by the Brazilians because they do not consider PDVSA to be in the same class as Petrobras. While both companies are

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state-owned, Petrobras is regarded as a top-notch, professionally managed, company, they said, while PDVSA is not. The relationship between the two companies is kept publicly friendly for political reasons, but the private relationship is reportedly less amicable. Petrobras CEO Gabrielli noted that Venezuela's rhetoric outpaces its ability to perform.

16. (SBU) Shell's Dias said that President Chavez's proposal to create a regional state-owned energy conglomerate, Petrosul, and to construct a gas pipeline from Venezuela to Brazil and Argentina was more for political propaganda than a realistic proposal. There was not much buy in on the Brazilian side, Dias said. By contrast, and despite the bad blood between Petrobras and PDVSA, Petrobras President Gabrielli told the Ambassador he believes that the proposed \$20 billion Venezuela-Argentina-Brazil pipeline makes sense when looked at in terms of long-term returns. He pointed out that South America could become a large gas exporter in the future, and an alternative means of gas distribution would have to be developed given that the market for gas in Brazil alone is growing 17 percent each year. Various obstacles need to be overcome to make it happen, however, including: a complex regulatory environment, the pricing system, technological and environmental issues, and border issues. Also, the various stakeholders will need to decide who will invest, and who will be responsible for each part of the project, which will take two to three years to design and 10 to 15 years to build.

17. (SBU) Comment: We believe Gabrielli, who is appointed by the GoB, was simply echoing the party line on the Venezuela gas pipeline. Other contacts with Petrobras (ref A) suggest there remain significant doubts as to its viability. While Gabrielli and Dias' comments do not break new ground, it is interesting that the Brazilians do not seem to believe that PDVSA has the capacity to fill the void left by Petrobras in Bolivia. It is as yet unclear whether or not this judgment is clouded by hubris. End Comment

18. (U) This cable was cleared by Ambassador Sobel and Embassy Brasilia.

MARTINEZ